

# INTERNATIONALIZATION OF THE BUREAUCRATIC POLITICS MODEL :

U. S.-Japan Relations in the late 1980s

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In a world of growing interdependence, bureaucratic politics has become internationalized. The democratic states of advanced industrial societies have now become more functionally integrated where different national bureaucracies interact to form de facto international public policies in specific issue-areas. Outcomes of international relations today depend on a pluralistic, bureaucratic interaction, its coalition-building, and the power game of pulling and hauling

which can even transcend national boundaries. Graham Allison's bureaucratic model of foreign policy making explains the U. S. management of the Cuban Missile Crisis within a national government<sup>1)</sup>. But, his model cannot capture an international dimension of bureaucratic dynamism and a newly emerging network of trans-national bureaucratic interdependence.

Allison's model is premised on the proposition that the jurisdictional *raison d'être* of a bureaucratic organization defines its world-view from which to identify its mission and interests to pursue in particular policy making cases<sup>2)</sup>. This proposition involves that, within a national government, different bureaucratic agencies may agree on a general national interest but disagree on specific policy objectives and instruments to achieve these objectives. Then, the essence of bureaucratic politics lies in "bargaining along regularized circuits among planners positioned hierarchically within the government"<sup>3)</sup>. In Allison's model, government behavior is thus understood as a resultant, or an outcome unintended by any one actor that emerges out of the dynamics of bargaining. However, as Bendor and Hammond criticize, the model suffers from empirical and logical complexities with regard to when bargaining characterizes policy making and who has to bargain with whom about what<sup>4)</sup>.

This study will demonstrate that internationalization of bureau-

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1) Allison, Graham, *Essence of Decision: Explaining the Cuban Missile Crisis*, Boston: Little, Brown, and Company, 1971.

2) *Ibid.*, p. 176.

3) *Ibid.*, p. 144.

4) Bendor, Jonathan, and Thomas Hammond, "Rethinking Allison's Model", *American Political Science Review*, Vol. 86, June 1992, pp. 313-318.

cratic politics substantiates the above central claim that foreign policy making involves bargaining among executive decision makers, because political support outside an executive branch, both domestic and international, influences formation of their coalition and counter-coalition and the distribution of power among those actors; or because informational asymmetries between different coalitions affect a decision making process. Under such "internationalization", the freedom of action of a chief executive officer is heavily constrained by a network of transnational bureaucratic interdependence, and, as a result, he is unable to have a complete command over his administration's hierarchy in foreign policy making.

As the end of Cold War has changed the international distribution of power and the post Second World War global regulatory structure, there is a need for developing a new approach to explain foreign policy process. Two case studies provide insights into how the internationalization of bureaucratic politics shapes an international power configuration, thereby determining an outcome of international relations. This study focuses on the Toshiba Case<sup>5)</sup> and the U. S.—Japanese politics of untied syndicated lending to the Soviet bloc in the late 1980s, which offers an interesting vantage point from which to analyze various aspects of a hyper-dynamic and intensive interaction process among defense, economic, and

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5) The Toshiba Corporation, was accused in Washington because the corporation transferred to the Soviet Union, breaching U. S. set 'regulations' of COCOM, a critical technology substantially decreasing the sound of submarine screw movement that has made it very difficult to locate a Soviet submarine under water.

foreign affairs agencies of the U. S. and Japanese governments. The Toshiba Case first set a linkage between security and commercial interests and a new network of bureaucratic interdependence, which was later extended to the bilateral bargaining on the untied lending issue.

### 1. The Toshiba Case: The Bureaucratic Expression of Security vs. Commercial Interests (U. S. DoD-Commerce vs. Japan's MITI)

The jurisdictional *raison d'être* of a bureaucratic organization defines its world-view from which to identify its mission and interests to pursue in particular policy making cases. In the Cold War period, the United States and Japan shared a goal to enhance their military security against the threats from the Soviet Union while excelling the country in economic performance. However, U. S.—Japan relations was asymmetrical because Japan relied on U. S. military protection while becoming a major U. S. economic competitor. As a result, the two nations' executive officers who headed different agencies needed to operationalize what constituted their national interests, articulating security and commercial interests according to their jurisdictional mission criteria.

Managing U. S.—Japan relations in the Cold War suffered from a compounding difficulty in articulating East-West and West-West relations, or security and commercial interests. Security considerations swayed out among U. S. agencies while commercial concerns predominated among Japanese agencies. In the late 1980s, the clash of security and commercial interests became materialized

in the form of confrontation between U. S. security and Japanese economic agencies. Exploiting Japan's security dependence, U. S. security agencies politicized the Toshiba Incident in order to strengthen its domestic bureaucratic alliance against the promotion of East-West trade and thereby to weaken a pro-trade Japan's bureaucratic alliance.

The U. S. Department of Defense (henceforth, DoD), an agency representing U. S. security interests, had traditionally sought to increase economic pressures in the Soviet Union. The objective was to render the Soviet Union to follow the Western model and to encourage democratic change within the Soviet society. DoD favored controlling the outflow of strategic goods and technologies to the Soviet Union, thereby compelling heavy military investment and frustrating economic growth. While the Toshiba Incident deepened security concern in the U. S. Congress, DoD bureaucrats aggressively cultivated an atmosphere in which security concerns swayed out commercial considerations. Although strategic control of industrial goods and technologies according to procedures of the Coordinating Committee for Export to Communist Areas (henceforth, COCOM) was under the jurisdiction of the Department of Commerce, DoD had a strong leverage because of its capacity to give "technical consultation" through which to politicize the control issue at the expense of commercial gains.

Using East-West trade policy as a form of its international policy instrument, the bureaucrats of the Commerce Department aimed at transforming the internationally aggressive and domestically authoritarian nature of the Soviet Union into a democratic

one which would accept the international status quo. But this economic statecraft approach was inherently ambivalent because Commerce officials had to represent both security and commercial interests. Required to implement COCOM controls and to promote U. S. foreign trade at the same time, Commerce bureaucrats attempted to articulate the two different interests that might end in contradiction.

Different bureaucratic jurisdictions involve conflicting world-views. DoD and Commerce bureaucrats differed on the nature of the Soviet society, its international behavior, and relevant Western strategies against the Soviet Union. Commerce bureaucrats disagreed with DoD officials, arguing that the United States was not able to maneuver the Soviet economy toward its breakdown in the foreseeable future because the economy was self-sufficient in many respects. From the Commerce perspective, a protracted transition process of incorporating the Soviet economy into the global market economy was seen as an essentially dynamic plus-sum game. Commerce officials thought it impossible to completely seal off the Soviet access to the knowledge of new Western technologies. Rather their expectation was that strategic control would result in less prosperity and lower productivity.

The Commerce cost-benefit approach to strategic control and the DoD's maximum control strategy inescapably clashed. From the Commerce viewpoint, East-West rivalry was a power competition of a relative and positional nature. This understanding opposed the static logic of DoD bureaucrats to keep "the Soviet Empire" simply weaker. The Commerce approach aimed to combine

cooperation and competition with the Soviet bloc, or growth and security, among all possible options which would maximize Western superiority. In other words, the West must benefit more in East-West economic relations. It holds, therefore, that sending signals by economic sanction must not cost the sender more economically than the targeted nation. In the long run, such a sanction may be effective but inimical to the overall economic development and national security of the sender.

Furthermore, the Commerce approach pursued to guide the transition process of the Soviet economy and society by sending political signals in the form of economic sanctions and rewards; the West must induce the Soviet Union with technology and capital, thereby creating a high opportunity cost of breaking relations with the West. This approach aimed at the creation of vulnerability interdependence which would discipline Soviet aggressiveness and promote internal democratization.

In the wake of the Toshiba Incident, however, DoD and Commerce bureaucrats once competing for the turf over strategic control formed a coalition in which Commerce bandwagoned DoD. The Incident revealed that two transformationist groups existed in the Commerce Department. The first group was those who wanted to actively cultivate East-West trade with "subsidies". They believed that a strong détente would contribute not only to the enhancement of commercial interests, but also to national security through trade and confidence-building with Soviet leaders; they are strong détenteists. On the other hand, the second group rejected the use of taxpayers' money to grant export credit to

**Table 1: World-View On the Soviet Union**

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|----------------------|---|
| 1. Dissolutionist    | 1) DoD<br>2) Dissolution of the Soviet Empire<br>3) Economic warfarer, strategic control maximalist   |
| 2. Transformationist | 1) Commerce<br>2) Democratization of the Soviet society and its acceptance of the international status quo<br>3) (a) Weak Détentist: Rejecting subsidies in the East-West Trade<br>(b) Strong Détentist: Using subsidies in the East-West trade |
| 3. Accommodationist  | 1) Japan's MITI and Finance<br>2) Economic development of the Soviet Union<br>3) Free-trader, strategic control minimalist  |
- \* 1) : bureaucratic actor (s)  
    2) : pursued goal  
    3) : characteristics of strategy

the Soviet Union. They are weak détenteists who oppose an explicit acceptance of “subsidizing” East-West trade for the long term political benefits alleged by strong détenteists. Coalesced with DoD dissolutionists, the Commerce’s weak détenteists overwhelmed the DoD strong détenteists. Table 1 shows contending world-views on the Soviet Union.

The above Defense-Commerce coalition cornered the control minimalists of Japan’s Ministry of International Trade & Industry (henceforth, MITI). MITI bureaucrats were free-traders who applied principles and rules of the market economy to the Soviet Union while rejecting to see the country as an inherently expansionist adversary. The MITI position aimed at the transformation of the “Soviet Empire” in terms of socio-cultural impact of Japanese as well as Western trade, direct investment and technology transfer.



According to this perspective, it holds that the dynamic status quo short of upheavals would lead to an evolutionary, incremental change toward modernization. In other word, MITI officials were accommodationists who assumed that economic development of the Soviet society would reduce its state's international aggressiveness. Therefore, they adopted a trade policy to minimize strategic control against the Soviet bloc while treating it as a normal trade partner. The "accommodationists" are located in a spectrum of contending world-views in Table 1.

In the Japanese domestic political arena, MITI and the Ministry of Finance (henceforth, MOF) traditionally formed an alliance in support of East-West trade. Before the Toshiba Incident, MITI's strategic control was very loose and MOF promoted the trade through the Export-Import Bank<sup>6)</sup>. Both agencies exercised a weak enforcement of the Foreign Exchange and Foreign Trade Control Law.

The central tenet of the above MITI approach was to ensure Japan's "comprehensive national security" and commercial development in which the strategic control issue was deemphasized. MITI was a control minimalist agency which pursued (1) "maintaining and strengthening the free trade system and other world systems", (2) "ensuring stable supplies of strategic materials" (energy, minerals, foodstuffs, eg.), and (3) "contributing to the international economy through technology advancement"<sup>7)</sup>. In other

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6) Smith, Gordon B, "Controlling East-West Trade", Gary K. Bertsch, ed., *Controlling East-West Trade and Technology Transfer*, Durhan: Duke University Press, 1988.

7) Sueki, Ohtaro, "Ensuring Japan's Economic Security", *Journal of Japanese*

words, the MITI approach was devoid of the Cold War *realpolitik* thinking and, as a result, incompatible even with the strong détente strategy of the U. S. Commerce Department<sup>8)</sup>.

From the MITI perspective Japan had a high vulnerability interdependence vis-à-vis the United States; the U. S. government under the influence of the DoD-Commerce coalition would be able and willing to deny Japan's access to the U. S. domestic market and high technologies. Reacting to the DoD-Commerce pressure<sup>9)</sup>, MITI immediately increased the number of its COCOM personnel from ten to fifteen<sup>10)</sup>, and compelled major Japanese private sector associations in trading house, machinery, machine-making, and electronics to observe COCOM procedures more strictly<sup>11)</sup>. In order to manage the Toshiba Incident, MITI Minister Tamura went to Washington, even though the Japanese Diet was in session. Tamura met with Congressional leaders and Secretary of Defense Weinberger, and promised to strengthen strategic control by changing rules of the Foreign Exchange and Foreign Trade Control

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*Trade & Industry*, No. 1, 1983.

8) Paul Freedenburg expresses his security concerns in the forward of *The Export Administration Annual Report FY 1987*: "The need for national security export controls is clear, given the well-documented efforts of our adversaries to steal the most sophisticated technology the West has to offer and to use it in this weapons system".

9) For example, Richard Perle responded to 'Japan bashing' in the wake of the Toshiba Incident. On July 14, 1987, he testified at a hearing before the Subcommittee of Trade, the House Committee of Ways and Means: "It is appalling and striking, and frustrating... when you think of the fact Japan pays 1 percent of GNP for world security, and we pay 6.9 percent, seems to be ironical, that we should scarifice our own security, and our own existence for the treatment that we are receiving."

10) *The Asahi*, 1987. 7. 1

11) *The Mainichi*, 1987. 7. 3.

Law and other related administrative measures.<sup>12)</sup>

Because of this setback, MITI could no longer sustain an explicit control minimalist position in East-West trade policy. The DoD-Commerce coalition succeeded in weakening the pro-trade MITI-MOF coalition under a joint jurisdiction of the Foreign Exchange and Foreign Trade Control Law.

The above analysis of the Toshiba Case has demonstrated that the jurisdictional *raison d'être* of bureaucracies indeed shape their world-views through which to define its mission and interests and, given a particular international distribution of power, to set an agenda for international bargaining.

## 2. The Untied Lending: The Bureaucratic Expression of Strategic vs. Interdependence Interests

### (1) U. S. DoD-Commerce vs. U. S. Treasury

The following analysis of bureaucratic bargaining on untied lending to the Soviet bloc will show which agencies bargain with which agencies for what specific policy objectives. In order to create a network of domestic bureaucratic interdependence in which security concerns prevailed, the DoD-Commerce coalition first attempted to incorporate political support outside the executive branch, or from the Congress, thereby consolidating its domestic and international bargaining power. In the international bargaining, the DoD-Commerce approach could be effective when U. S. federal agencies became a unitary actor with a single voice. Otherwise,

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12) *Ibid.*, 1987. 7. 6.

a domestic or a transnational counter-coalition would challenge the ascendancy of security considerations. The DoD-Commerce coalition elevated the controversy on "security vs. commercial interests" in East-West trade into the general question of "military security strategy vs. international economic interdependence". For this purpose, the coalition attempted to project its power beyond traditional military security issues and targeted international finance as an issue area for bargaining. U. S. Treasury Department (henceforth, Treasury) bureaucrats prevented the DoD-Commerce intrusion into their turf by utilizing their expertise in international finance. Our analysis will demonstrate that political support outside an executive branch and informational asymmetries are important determinants in bureaucratic politics.

Western untied lending to the Soviet bloc significantly expanded between 1984 and 1987, accounting for most of international financial inflows to the bloc.<sup>13)</sup> A rapid increase of untied lending

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13) The Soviet bloc here includes the Soviet Union, Bulgaria, Czechoslovakia, the Democratic Republic of Germany, Poland, Hungary, and Romania. Untied lending is defined in "The International Financial Act of 1987" as follows:

- (1) [Untied lending includes] so-called "balance of payments" or general loans;
- (2) loans with maturity structures which significantly exceed the duration of the underlying trade transaction or project;
- (3) loans stated to be for specified projects where there is no documented efforts made to verify that the proceeds of the loan are strictly dedicated to that project nature;
- (4) any future participation in Euronotes, bonds, or other securities which are general purpose in nature; and
- (5) inter-bank deposits (i. e., United States bank deposit in Eastern bloc banks, including Eastern bloc banks located in the West) which are repeatedly renewed in the absence of proper monitoring.

led to an American fear that these loans would provide an extra source of Soviet military expenditure.

In the Congress, there emerged a strong bipartisan consensus against untied lending to the Soviet Union. The bipartisan action was first formally set by a letter of June 2, 1987, to President Reagan signed by Jack Kemp and seventeen other leading Senators and Congressmen, including conservative Sens. Malcolm Wallop and Gordon Humphrey and liberals, Howard Mezenbaum and Dennis DeConcini<sup>14)</sup>. As the 1988 Presidential election approached, both conservatives and liberals had to seriously confront the issue of untied lending. Republicans had to balance between Reagan's détente policy toward the Soviet Union under Gorbachev and their own perception that Moscow had used Western untied loans for military purposes. Democrats, on the other hand, could not propose a reduction of U. S. military expenditure when they believed that Japanese and West European commercial banks virtually financed

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For untied syndicated loans to the Soviet Union, see, *Report of the U. S. Special Interagency Task Force*, November 1988. For those loans to the Soviet bloc except to the Soviet Union, see, *Eurocurrency*, and see, Hanai, Hitoshi, "Tai Soren-Ken Yushi Mondai [On Untied Lending to the Soviet bloc], *Nippon Keizai Shinbun*, 1988. 12. 29. For untied lending by Japanese commercial banks, see, Hanai, *op. cit.*, and U. S. Government Printing Office, 90-260, 1989, pp. 46-53.

14) Robinson, Roger W., Jr., "East-West Financial Security", *Global Affairs*, Fall 1987, p. 5. Furthermore, according to the 1988 Republican Party Platform, "Republicans will continue to work with the Soviet leadership". "But the terms of the relationship will be based upon persistent and steady attention to certain fundamental principles: An end to untied credits, particularly general purpose loans which the Soviet Union with desperately needed hard currency to bolster its weak economy and facilitate illicit Soviet purchase of U. S. technology", *Congressional Quarterly—Weekly Report*, 1988. 8. 20, p. 2390.

the enhancement of Soviet military power<sup>15)</sup>.

With growing security concerns so manipulated, Congressional leaders, allied with DoD and Commerce bureaucrats, pressured Treasury strong détenteists and control minimalists. On August 4, 1987, Jack Kemp and other House Representatives introduced, on a bipartisan basis, the International Financial Security Act of 1987 (H. R. 3095) into the House Committees of Banking, Finance, and Urban Affairs, and Foreign Affairs. H. R. 3095 is characterized by U. S. unilateral approach to the issues of untied lending and linkage-building with Soviet Jewish emigration<sup>16)</sup>.

H. R. 3095 includes clauses aiming to impose much stronger enforcement on strategic control than those in S. 786, and grants the President discretionary authority to control the export of capital; the authority conferred shall be exercised by Secretary of Treasury in consultation with Secretaries of Defense and Commerce; compliance shall be enforced by "the appropriate federal banking agency" toward insured banks including U. S. -located branches of Japanese commercial banks, and by the Securities and

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15) According to Hanai, *op. cit.*, Japan lent 75% of untied loans in 1985, and 21% in 1987. In a cumulative term, Japanese banks are estimated to lend 45% of untied loans to the Soviet bloc, Western European banks 45%, and American banks 5%. Though Western European also lent as much as the Japanese, no single Western European country is not a substantial provider as Japan.

16) [Sec. 3 restricts] "the export of capital, the extension of credit, the making of loan, or transfer of financial resources to destinations or persons outside of the United States in order to promote the national security..., the foreign policy interests of the United States, the advancement of emigration of Soviet Jews and other ethnic minorities, and human rights policies of the Soviet Union and other Eastern Bloc countries."

Exchange Commission under the Security Exchange Act of 1934 toward any other designated financial institutions including Japanese security companies.

H. R. 3095 is intended to grant the authority to control untied lending to DoD dissolutionists and Commerce weakd détenteists, thereby weakening Treasury control minimalists. H. R. 3095 symbolized the desire of the DoD-Commerce coalition to exercise U. S. unilateral action in global financial issues. Denial or threat of denial to access to the U. S. domestic financial market constituted a substantial blow to a country, especially Japan, which had a high vulnerability interdependence on the U. S. market.

To circumvent Treasury control minimalists, the DoD-Commerce coalition further inflamed security concerns in Congressional politics. On November 3, 1987, the Subcommittee on International Economic Policy and Trade of the House Committee on Foreign Affairs, held a hearing on the Toshiba Incident and stressed the need for tightening COCOM restrictions<sup>17)</sup>. And, the Subcommittee performed another hearing on commercial lending to the Soviet bloc two weeks later. In this hearing, Rep. Jack Kemp, who introduced H. R. 3095, strongly urged the bill's necessity, and David Wigg, Deputy Assistant Secretary of Defense for Policy Analysis, strongly supported the bill<sup>18)</sup>.

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17) Witnesses included E. Allan Wendt (Senior Defense Representative for Strategic Technology), Paul Freedenberg (Acting Undersecretary of Commerce for Export Administration), and Stephen Bryen (Deputy Undersecretary of Defense for Trade Security Policy).

18) Wigg said, "We believe the sharp rise in untied syndicated lending

Conversely, Treasury bureaucrats advocated the interdependent nature of the global marketplace, and rejected a strategic approach that neglected the imperatives of interdependence. Thomas J. Berger, Deputy Assistant Secretary of Treasury for International Monetary Affairs, strongly opposed H. R. 3095 in his testimony at the hearing before the Subcommittee. He argues that:

H. R. 3095 would be costly to the United States and U. S. companies and financial institutions. It could create problems with our allies. It would provide no concomitant benefits to our efforts to control the flow of strategic trade or technology to the [Soviet] Bloc, nor would it deprive the Bloc of capital. The specter of new capital controls would create doubts and uncertainties in the minds of foreigners about [the] integrity of [the] dollar, [and] our commitment to an open investment policy to maintain strong competitive markets<sup>19)</sup>.

Then, Treasury bureaucrats indicated their control minimalist position on international capital movement;

We do not believe that controls on international capital movements should be exercised except in emergency situations. The President already has the requisite authority to [do] this under the International Emergency Economic Power Act (IEEPA). ... [D]irect controls on U. S. exports of sensitive goods and technology are already in place and can be more effectively regulated under the [Export Administration Act]. The Administration has improved the effectiveness of U. S. export controls. The optimal approach now is to tighten multinational enforcement of [the] rules of the Coordinating Committee for Multilateral

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could present a problem from a standpoint of possible diversion of funds by the Soviets for purposes inimical to U. S. security interests. While we do not believe the capital control provisions of H. R. 3095 are the answer, we are sympathetic to its objectives and will seek other ways to implement them." U. S. Government Printing Office, 90-260, 1989, p. 42.

19) *Ibid.*, p. 65.



Export Controls<sup>20)</sup>.

U. S. policy to support non-strategic trade with the Eastern Bloc is very much to our advantage. This trade provides important outlets for our agricultural products and our manufactured goods, at a time when both sectors are seeking to regain the levels of output and capacity utilization which they achieved prior to the last recession. It helps U. S. economic growth and U. S. employment. Moreover, it also absorbs hard currency which might otherwise be directed to the military or to domestic security forces of the Eastern Bloc<sup>21)</sup>.

Treasury bureaucrats assumed that the strengthening of COCOM procedures and their complete implementation would be adequate for U. S. national security, and that financial controls were not necessary at all. Moreover, pro-trade Treasury bureaucrats held that the East would spend untied loans to purchase agricultural and non-strategic manufactured goods.

Secondly, Treasury officials denied Japan's vulnerability interdependence on the U. S. domestic financial market, and instead pointed out huge U. S. budgetary and trade deficits and its sensitivity interdependence on Japan as a major supplier of hard currency and domestic investment. Treasury bureaucrats considered non-emergency, strategic controls under H. R. 3095 would hurt the United States itself:

[B]y such action we would diminish the value and respect with which our currency and our capital market have been held throughout the world. Such authority would be viewed by foreign interests as politically captious. It would weaken the perception that the United States is a good place to invest, thereby undermining our ability to attract

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20) *Ibid.*, p. 60.

21) *Ibid.*, p. 61.

foreign investment, which helps promote domestic growth and employment, at a time when we must import a substantial volume of capital. Part of the dynamism of our own economy is reflected in its ability to attract foreign investors who put a premium on safety and certainty in an often uncertain world<sup>22)</sup>.

Thirdly, Treasury bureaucrats considered it impossible to unilaterally control untied lending because extraterritorial enforcement of a U. S. law, if taken, would invite retaliation from Western allies. Berger continues that:

other [allies] have been far more active in pursuing export markets in [the Soviet bloc] and would galdly step in to fill any void the United States would leave<sup>23)</sup>.

It is extremely difficult to impose effectively unilateral constraints on the aggregate flow of credit to a particular country. ... There is no consensus for coordinated controls on loans to 'controlled counties'. ... Our European allies place high priority in maintaining trade and financial relations with the Eastern Bloc, not only for economic reasons, but also as a means of fostering détente. Accordingly, they strongly reject proposals to restrict these relations as 'economic warefarer'<sup>24)</sup>.

In this bargaining, Treasury bureaucrats successfully overrode the DoD-Commerce-Congress coalition, by emphasizing the impossibility of unilateral capital control because of shared sensitivity interdependence among Western allies. In other words, the DoD-Commerce coalition attempted to prevail by obtaining political support outside of the executive branch, or from the Congress, but Treasury bureaucrats prevented such a DoD-Commerce ambi-

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22) *Ibid.*, p. 61.

23) *Ibid.*

24) *Ibid.*, p. 62.

tion because informational asymmetries in international finance existed in favor of the Treasury side.

(2) U. S. DoD-Commerce vs. Japanese Finance

Formation of transnational bureaucratic alliance will alter an international distribution of power among different national bureaucratic agencies, thereby significantly affecting outcomes of international relations. In such an alliance-building, a chief executive officer cannot necessarily lead policy making because his command within his administration's hierarchy is highly constrained by the countervailing power of a transnational counter-coalition.

Unable to emasculate Treasury's opposition in the U. S. domestic political arena, the DoD-Commerce coalition had to block the accommodationists and strong détenteists from forming a transnational counter-coalition. This need was paramount because such a counter-coalition, if formed, would aim to overturn the dissolutionist and weak détenteist (or DoD-Commerce) approach at the economic summit meeting of the seven industrialized nations (Britain, Canada, France, Italy, Japan, West Germany, and the United States,) to be held at Tronto in August, 1988. The coalition began to prepare setting the issue of untied lending as a major agenda of the Western alliance at the summit meeting to consolidate its approach in the international arena.

By restarting to criticize Japanese accommodationist approach, the DoD-Commerce coalition first attempted to incorporate Reagan Cabinet members and other top aides in the White House into the coalition. Perle testified at a hearing before the Senate Com-

mittee of Armed Services on February 4, 1988<sup>25)</sup>. On June 14, 1988, fifty House representatives including Jack Kemp and Charles Schumer wrote a letter to President Reagan, demanding to discuss the issue of untied lending at the Toronto summit; they demanded that Reagan Administration had to pressure Western allies to use the OECD as a supervisor of untied lending<sup>26)</sup>. On June 15, Secretary of Treasury James Baker, former chief of staff to

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25) Perle made the following statement:

[T]he United States has been bearing a disproportionate share of the burden of defending the alliances in which we participate. ... [O]ur defense efforts... could be shared and should be shared, more equitably. ... One must define the burden to be shared in order to judge whether it is being shared fairly. ... [Our allies] do not consider that they are under any obligation to join with us in the protection of western interests outside their immediate territory. Defending the community of democratic nations entail more than buying and deploying military forces. ... The Japanese case is scandalous. With its vast wealth, to say nothing of its immense trade and currency balances, Japan could, if it wishes, aid Turkey, Portugal, and its friends in the Pacific with substantial funds, equipment, and technology. The political and psychological excuses that Japan has told a succession of American administrations... for not sharing the defense burden equitably, are little more than a gloss on a policy of chronic free loading. ... We have seen recently the extensive damage [of the Toshiba case]. ...

Consider the nature of the financial relationship between many of our allies and the Soviet bloc. Western commercial banks have been lending money to the Soviet Union in prodigious amount. ... Our Japanese ally currently holds 27% of Cuba's \$ 3.78 billion external debt, and Japan, together with other American allies, has been lending significant sums of money to Vietnam even as Vietnam continues to occupy Cambodia. Japan has emerged as the largest single source of Soviet bloc credits over the last three years, supplying 40%, or nearly \$ 10 billion, in 1986. U. S. Printing Office, 83-097, 1988, pp. 151-153.

26) "Minkan Tai So Yushi O Kanshi: Bei Kain Gin 50 Nin Summit Gidai De Chyumon [Surveilling commercial lending to the Soviet Union: 50 U. S. House Representatives demand the discussion at the Summit]", *Nippon Keizai Shinbun*, 1988. 6. 15.

President Reagan, responded in favor of this Congressional demand on the following day, though Treasury bureaucrats opposed his approach as typified by Berger's Congressional testimony<sup>27)</sup>.

Reacting to the above U. S. preemptive move, on June 17, Japan's Ministry of Finance (MOF) and its banking community expressed its non-interventionist position, arguing that the strengthening of strategic financial control was unrealistic in the ongoing détente; a confrontational approach would not work against the Soviet bloc. MOF bureaucrats publicized their position against such a financial control, later upheld as the Japanese government position at the Toronto summit. According to MOF statistics, Japanese commercial banks increased unclassified loans, including both tied and untied, from \$ 7.3 billion in 1985 to \$ 14 billion in September 1987. The banking community admitted that the increase was mainly in untied lending to a major Soviet bank for foreign trade. However, a major Japanese commercial bank understood that the Soviet Union borrowed credits primarily in order to overcome a shortage of hard currency generated by the stagnating prices of their primary export products<sup>28)</sup>.

The above course of MOF action reflected the interests as defined by its jurisdictional mission, or expansion and strengthening of Japanese financial power that would serve Japan's commercial

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27) "Nippon No Futan Kitai—Tai So Yushi Togi Mo [Expectation toward Japan's Burden Sharing: Japanese burdensharing including commercial lending to the Soviet Union]", *Ibid.*, 1988. 6. 16.

28) "Bei No Tai-So Yushi-Kyoka-Ron: Ohkra, Kinyu-Kai Ga Keikai [On the U. S. approach of strengthening control over commercial lending to the Soviet Union: the Ministry of Finance and the banking community alerted]", *Ibid.*, 1988. 6. 17.

interests. Sadaaki Hirasawa, director of MOF Banking Bureau, noted that :

Tokyo has become one of the three major financial markets of the world together with New York and London, we must return to the fundamental purpose of how best [to serve our] clients needs, taking into account the recent diversification of financial merchandise and globalization of finance<sup>29)</sup>.

From the MOF perspective, therefore, it was essential for Japanese commercial banks to sustain international competitiveness especially vis-à-vis U. S. and West European banks in the ongoing internationalization and liberalization of international finance. Hirasawa argues that :

liberalization and internationalization has expanded the independent decision-making and diversity in banking management, but have at the same time increased latent risks accompanying banking operations. Hence, stricter risk control and the enhancement of capital adequacy as a buffer against risks have become urgent tasks for banks<sup>30)</sup>.

In other words, MOF bureaucrats regarded it essential to support Japanese commercial banks in providing untied loans to the Soviet bloc in order to enhance their international financial competitiveness, because they could not find major borrowers when the Third World countries, especially in Latin America, suffered from accumulated debts and a very high country risk assessment<sup>31)</sup>.

At the summit meeting, the DoD-Commerce approach which prevailed in the U. S. domestic political arena was overturned

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29) Hirasawa, Sadaaki, "The Role of Japanese Banks in the Financial World", *Business Japan*, January 1989, p. 47.

30) *Ibid.*, p. 46.

31) "Bei No Tai-So Yushi-Kyoka-Ron", *op. cit.*

by the transnational counter-coalition of Treasury and MOF. The DoD-Commerce coalition attempted in vain to obtain the allies' consent to introduce strategic control against untied lending to the Soviet bloc; the final political statement of the summit only included a general principle to harmonize security and commercial interests, but did not address the necessity of strategic financial control<sup>32)</sup>. It was Secretary of Treasury James Baker, interestingly enough not Secretary of State George Shultz, who leaked the information that the roundtable talk among foreign ministers at the summit meeting discussed the issue and exchanged ideas, which implies that U. S. strategic control proponents failed to set the issue of untied lending as a common agenda at the summit<sup>33)</sup>.

It has been demonstrated that an international dimension of bureaucratic dynamism determines outcomes of international relations. A chief executive officer cannot necessarily control his administration's hierarchy, especially when constrained by a transnational network of bureaucratic coalition and counter-coalition on a specific policy issue.

### (3) U. S. State Department vs. Japan's Foreign Ministry

In bureaucratic politics, a policy outcome is a resultant subjected to a shifting coalition and counter-coalition and their distribution of power; changes occur when new players participate in the game. In the politics of untied lending, U. S. and Japanese diplo-

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32) *Nippon Keizai Shinbun*, 1988. 6. 21.

33) "Tai-So Yushi-Mondai Gaishyo-Kaigi De Togi [The Summit meeting of foreign ministers discussed commercial lending to the Soviet Bloc]", *Ibid.*, 1988. 6. 21.

matic officials kept a neutral, more accurately, a fence-sitter position. They did not specify where they were located between strategic financial control proponents (DoD-Commerce-Congress) and opponents (Treasury-MOF), or between the dissolutionist/weak détenteist and strong détenteist/accommodationist approaches. However, as the transnational bureaucratic balance of power shifted toward the pro-control approach, they began to seek active involvement and influence in the emerging transnational bureaucratic network. Their interests as defined by their jurisdictional missions were at stake.

Generally, Japan's Ministry of Foreign Affairs (henceforth, MFA) had to avoid a confrontation with the U. S. Department of State when U. S. -Japan trade frictions deepened, U. S. pressure on Japan grew, and "Japan bashing" abounded; *The 1987 Diplomatic Bluebook* begins with a remark that "economic friction, especially unprecedentedly serious trade imbalance with the United States, deepens its seriousness"<sup>34)</sup>.

In this environment, State officials, approaching the DoD-Commerce-Congress coalition, warned that MFA should not take the accommodationist approach toward the Soviet Union. On June 24, 1988, Secretary of State Shultz stressed, in a meeting with a high official of the Japan's ruling Liberal Democratic Party, that Japan should not "buy" back the Northern Islands with aid for Siberian development.<sup>35)</sup> Shultz signaled that the United States would

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34) *The 1987 Gaikou Seishyo* [The Blue Book of Foreign Affairs], Bureau of Printing, the Japanese Ministry of Finance.

35) "Hotsuppo-Ryodo-Henkan Bei Mo Shien [America will support the returning of the Northern Islands]", *Nippon Keizai Shinbun*, 1988. 6. 25.



diplomatically assist Japan in the territorial dispute with the Soviet Union<sup>36)</sup>. Furthermore, State bureaucrats mobilized the Anglo-American alliance through which to let British counterparts disclose on June 19, 1988, the fact that the then British Foreign Minister discussed the Northern Territory issue at a Moscow meeting with the Soviet counterpart in February, 1988<sup>37)</sup>.

The above State approach was effective to induce MFA bureaucrats to align with the DoD-Commerce-Congress coalition.<sup>38)</sup> Smith argues that:

[MFA] takes the most cautious approach toward the USSR. Japan has yet to conclude a peace treaty with the Soviet Union, and the continued Soviet occupation of the Northern Territories, in the eyes of Ministry, ... precludes the possibility of greatly enhanced economic cooperation with the Soviets. The Ministry has repeatedly and successfully opposed efforts to conclude a long term trade treaty with the Soviet Union, arguing that to do so would remove a major bargaining chip that could be used in securing the return of the four islands.<sup>39)</sup>

In response, MFA bureaucrats brought the Northern Islands issue

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36) *Ibid.*

37) "Soren Gaishyo Tono Kaidan, Hoppo Ryodo Mo Gidai Ni: Ei Gaishyo, Uno Gaishyo Ni Hyomei [British Foreign Minister informed Foreign Minister Uno of his meeting with the Soviet counterpart: The Northern Islands Issue Discussed]", *Ibid.*, 1988. 6. 20., evening edition.

38) Hanai, *op. cit.*

The Japanese foreign policy establishment, such as Touru Nakagawa, former Japanese Ambassador to the Soviet Union, began to favor an accommodationist foreign policy toward that country under Gorbachev, expecting an increasing possibility of the returning of the Northern Territory. Keimei Sato, member of the Japanese-Soviet Economic Committee, argues that the return depends on "the improvement of general atmosphere, détente, and maturity of mutual trust." See, "Soren No Kaikaku, Tsugi No Tenkai O Yomu [The Soviet Reform, and the Next Development]", *Nippon Keizai Shinbun*, 1988. 6. 19.

39) Smith, *op. cit.*, p. 148.

at the Toronto summit. A ranking MFA official said that "it [was] very important to let the Soviet Union realize that the Northern Territory issue [was] a great obstacle to obtain Japanese cooperation for the Soviet economic reform"<sup>40)</sup>.

It has been shown that the DoD-Commerce-Congress coalition incorporated the State Department and MFA into the coalition, thereby isolating the Treasury-MOF counter-coalition in the international arena.

### Conclusion: A Transnational Bureaucratic Arrangement

Hitherto, our analyses have demonstrated how internationalization of bureaucratic politics determines policy outcomes in international relations. It is essential to comprehend an international dimension of bureaucratic dynamism and a newly emerging network of transnational bureaucratic interdependence which Graham Allison failed to capture by his bureaucratic politics model. Two case studies (or, the Toshiba case and the case of untied lending) have focused on when transnational bargaining characterizes policy making and which agency bargains with which agency and for what specific policy objectives. It has been made clear that political support outside of an executive branch and informational asymmetries play important roles to shape a resultant in bargaining process in which a chief executive officer cannot necessarily control his administration's hierarchy.

This study has illustrated how the U. S. dissolutionists and

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40) "Tozai Taiwa O Hirogeru Michi [On the way to expand East-West Dialogue]", *The Asahi*, 1988. 6. 22.

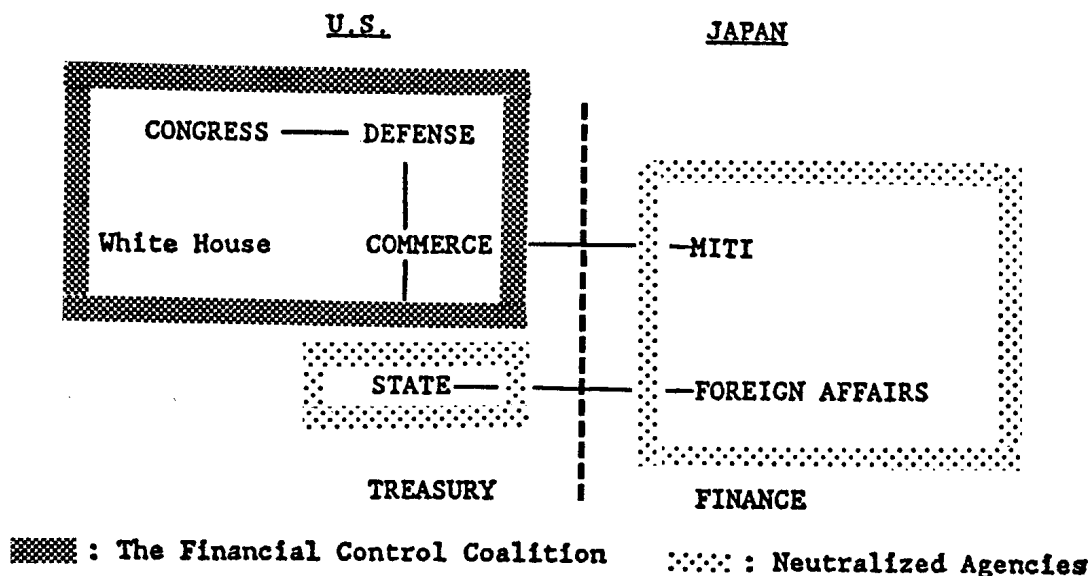
weak détenteists conspired to strengthen COCOM controls in the wake of the Toshiba Incident and to apply such a strategic control approach to untied lending to the Soviet bloc. The analysis has centered on how the DoD-Commerce-Congress coalition neutralized the strong détenteists and accommodationists in MITI, MOF, and Treasury, particularly when these opponents formed a transnational counter-coalition. The coalition first politicized the Toshiba Incident to inflame security concerns, thereby producing a lame-duck MITI which was once a strong control minimalist actor in East-West relations. Second, the coalition consolidated the issue of strategic financial control as a major agenda, by overemphasizing nominally inflated untied loans which resulted from a substantial depreciation of the U. S. dollar. Third, the coalition succeeded in manipulating security concerns to upsurge and neutralizing the State Department which traditionally followed a strong détenteist (or anti-control) approach. Then, the State Department neutralized Japan's MFA in terms of the promise to extend its diplomatic assistance in resolving the territorial dispute with the Soviet Union. Scheme 1 depicts such a bureaucratic network which results from the core coalition and "neutralization".

Our analysis also has shown that Treasury and MOF were isolated in their respective domestic political arena. Indeed, Treasury resisted the Congress-Defense-Commerce coalition in the Special Interagency Task Force on Western Lending to the Soviet Bloc while exerting to expertise in international finance.<sup>41)</sup> MOF

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41) In the Special Interagency Task Force on Western lending to the Soviet Bloc and other areas, Treasury bureaucrats prevailed over those from

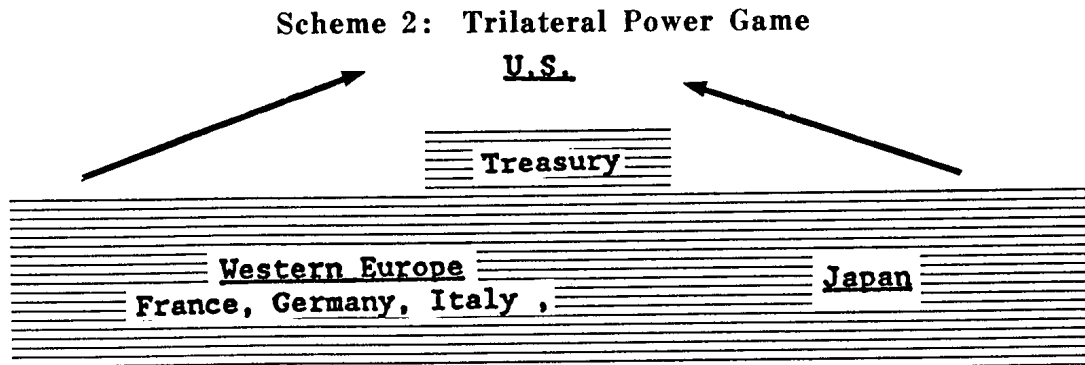
Scheme 1: U.S.-Japan Bureaucratic Power Constellation



prevailed over MFA and MITI with its budget compilation power. However, Treasury bureaucrats attempted in vain to challenge the prevailing DoD-Commerce-Congress coalition that dominated a transnational network. The Congress already consolidated the issue of untied lending as a major agenda and scheduled other congressional hearings on the issue. Given that environment, President Bush supported the strategic financial control while his administration included at least two active control advocates at the cabinet level: Secretary of State James Baker, and Secretary of Housing and Urban Development Jack Kemp. Consequently, the dissolutionist and weak *détentist* (or DoD-Commerce) approach

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other agencies, including the NSC, State, Defense Commerce, EPC, and CIA. On the process of drafting its report, Treasury bureaucrats successfully compelled other agencies to accept the fact that untied syndicated lending was nominally inflated due to a substantial depreciation of dollar, implying that these untied loans were not inimical enough to the U. S. national security. See, *Report of the Interagency Task Force*, ITF/OASIA/7-14-88.



completely prevailed in both domestic and international arenas.

This study has demonstrated that internationalization of bureaucratic politics makes it feasible to manipulate a policy outcome in terms of bargaining through a transnational bureaucratic coalition building. Given the dynamic nature of bargaining process, a resultant is a temporary solution that remains subjected to changes incurred by a shifting balance of power between coalition and counter-coalition.

In the post Cold War period, international relations among the democratic states of advanced industrial societies has three power centers—the United States, Japan, and Western Europe. International bureaucratic politics will become a trilateral game. Theoretically, in order to counterbalance the pro-control transnational bureaucratic power constellation, Treasury and MOF had to transform bilateral to trilateral bargaining in which an anti-control Japanese-European coalition could prevail. Germans, French, and Italians, as major credit providers to the Soviet bloc, would be promising partners vis-à-vis U. S. control advocates<sup>42)</sup>. (Scheme 2 shows such a game.)

42) *Report of the Special Interagency Task Force, op. cit.*

The trilateral power game will necessarily become the politics of international regimes. Stephen D. Krasner defines international regimes as "principles, norms, and rules, and decision-making procedures around which actors' expectations converge in a given issue-area"<sup>43)</sup>. Practically, Japanese and West European bureaucracies should have had to establish an international regime on untied lending as a buffer against pro-control U. S. pressures. If rules and decision-making procedures only supported a loose strategic control, Japanese and West European bureaucracies would accept abstract principles and norms that required a strong control as U. S. security agencies demanded. This scenario would be feasible because rules would be a buffer against U. S. policy fluctuation that bureaucratic bargaining generated; because decision-making procedures would slow the politicization process of untied lending, even if its amount might radically but nominally increase.

Internationalization of bureaucratic politics will have a central explanatory primacy over the emerging trilateral power game. Indeed, with the Cold War over, the interaction pattern of U. S. -Japan security and economic agencies will necessarily change when economic concerns gradually occupy ascendancy over military security considerations. However, U. S. -Japan bureaucratic politics continues to provide an important vantage point from which to analyze Northeast Asian international relations and U. S. -Japan relations where the extant legacy of the Cold War military security factors still remains as a major driving force.

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43) Krasner, Stephen D., ed., *International Regimes*, 1983, Ithaca; Cornell University Press, p. 1.

INTERNATIONALIZATION OF THE  
BUREAUCRATIC POLITICS MODEL :  
U. S.-Japan Relations in the late 1980s

By  
Masahiro Matsumura

Abstract

Foreign policy analysis today faces an urgent need to explain policy process and prescribe policy recommendations to manage complex and complicated phenomena generated by so-called "internationalization of domestic politics" and "domesticization of international politics". However, the existing literature of comparative political studies almost exclusively focuses on a specific foreign policy action as an output of the domestic political process of a particular single state. This article is an attempt to apply the bureaucratic politics model into the analysis of dynamic interaction process of foreign policy making by integrating a hypothesis—internationalization of bureaucratic politics—and two case studies.

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